# Exhibit A

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended August 28, 2004**

**Commission File Number 0-20214**

# BED BATH & BEYOND INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **New York** | **11-2250488** |
| (State of incorporation) | (I.R.S. Employer Identification No.) |

**650 Liberty Avenue, Union, New Jersey 07083**
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: **(908) 688-0888**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Securities Exchange Act).
Yes ☒ No o

**Number of shares outstanding of the issuer's Common Stock:**

| Class | Outstanding at August 28, 2004 |
|---|---|
| Common Stock - $0.01 par value | 300,930,744 |

**BED BATH & BEYOND INC. AND SUBSIDIARIES**

**INDEX**

**BED BATH & BEYOND INC. AND SUBSIDIARIES**
*Consolidated Balance Sheets*
*(in thousands, except per share data)*

| | August 28, 2004 (unaudited) | February 28, 2004 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 846,350 | $ 825,015 |
| Short term investment securities | 105,498 | 41,580 |
| Merchandise inventories | 1,052,813 | 1,012,334 |
| Other current assets | 108,443 | 90,357 |
| Total current assets | 2,113,104 | 1,969,286 |
| Long term investment securities | 305,832 | 210,788 |
| Property and equipment, net | 534,795 | 516,164 |
| Goodwill | 147,559 | 147,269 |
| Other assets | 21,559 | 21,516 |
| | $ 3,122,849 | $ 2,865,023 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 428,393 | $ 398,650 |
| Accrued expenses and other current liabilities | 256,482 | 273,851 |
| Merchandise credit and gift card liabilities | 69,098 | 63,188 |
| Income taxes payable | 50,469 | 33,845 |
| Total current liabilities | 804,442 | 769,534 |
| Deferred rent and other liabilities | 110,877 | 104,669 |
| Total liabilities | 915,319 | 874,203 |
| Shareholders' equity: | | |
| Preferred stock - $0.01 par value; authorized - 1,000 shares; no shares issued or outstanding | — | — |
| Common stock - $0.01 par value; authorized - 900,000 shares; issued and outstanding - August 28, 2004, 300,931 shares and February 28, 2004, 300,278 shares | 3,009 | 3,003 |
| Additional paid-in capital | 448,051 | 433,404 |
| Retained earnings | 1,756,470 | 1,554,413 |
| Total shareholders' equity | 2,207,530 | 1,990,820 |
| | $ 3,122,849 | $ 2,865,023 |

See accompanying Notes to Consolidated Financial Statements.



**BED BATH & BEYOND INC. AND SUBSIDIARIES**
*Consolidated Statements of Earnings*
*(in thousands, except per share data)*
*(unaudited)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | August 28, 2004 | August 30, 2003 | August 28, 2004 | August 30, 2003 |
| Net sales | $ 1,273,960 | $ 1,111,445 | $ 2,374,877 | $ 2,005,313 |

| | | | | |
|---|---|---|---|---|
| Cost of sales | [illegible] | [illegible] | [illegible] | [illegible] |
| Gross profit | 530,829 | 459,145 | 987,603 | 826,325 |
| Selling, general and administrative expenses | 341,721 | 303,278 | 669,788 | 580,008 |
| Operating profit | 189,108 | 155,867 | 317,815 | 246,317 |
| Interest income | 3,676 | 2,195 | 6,774 | 5,254 |
| Earnings before provision for income taxes | 192,784 | 158,062 | 324,589 | 251,571 |
| Provision for income taxes | 72,776 | 60,854 | 122,532 | 96,855 |
| Net earnings | $ 120,008 | $ 97,208 | $ 202,057 | $ 154,716 |
| Net earnings per share - Basic | $ 0.40 | $ 0.33 | $ 0.67 | $ 0.52 |
| Net earnings per share - Diluted | $ 0.39 | $ 0.32 | $ 0.66 | $ 0.51 |
| Weighted average shares outstanding - Basic | 300,778 | 295,811 | 300,598 | 295,387 |
| Weighted average shares outstanding - Diluted | 306,495 | 304,172 | 306,539 | 303,605 |

See accompanying Notes to Consolidated Financial Statements.



**BED BATH & BEYOND INC. AND SUBSIDIARIES**
*Consolidated Statements of Cash Flows*
*(in thousands, unaudited)*

| | Six Months Ended | |
|---|---|---|
| | August 28, 2004 | August 30, 2003 |
| Cash Flows from Operating Activities: | | |
| Net earnings | $ 202,057 | $ 154,716 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 46,168 | 40,257 |
| Amortization of bond premium | 585 | 649 |
| Tax benefit from exercise of stock options | 5,947 | 18,634 |
| Deferred income taxes | 1,070 | 4,037 |
| (Increase) decrease in assets, net of effect of acquisition: | | |
| Merchandise inventories | (40,479) | 26,498 |
| Other current assets | (14,842) | (10,002) |
| Other assets | (85) | (6,946) |
| Increase (decrease) in liabilities, net of effect of acquisition: | | |
| Accounts payable | 29,743 | 7,026 |
| Accrued expenses and other current liabilities | (10,798) | 12,789 |
| Merchandise credit and gift card liabilities | 5,910 | 6,016 |
| Income taxes payable | 16,624 | (16,789) |
| Deferred rent and other liabilities | 1,736 | 10,545 |
| Net cash provided by operating activities | 243,636 | 247,430 |
| Cash Flows from Investing Activities: | | |
| Purchase of investment securities | (247,355) | (130,975) |
| Redemption of investment securities | 87,808 | 194,770 |
| Payment for acquisition, net of cash acquired | — | (175,487) |
| Capital expenditures | (64,793) | (30,126) |
| Net cash used in investing activities | (224,340) | (141,818) |
| Cash Flows from Financing Activities: | | |
| Proceeds from exercise of stock options | 8,706 | 17,314 |
| Payment of deferred purchase price for acquisition | (6,667) | — |
| Prepayment of acquired debt | — | (21,215) |
| Net cash provided by (used in) financing activities | 2,039 | (3,901) |
| Net increase in cash and cash equivalents | 21,335 | 101,711 |
| Cash and cash equivalents: | | |

| | | |
|---|---|---|
| Beginning of period | | |
| End of period | $ 846,350 | $ 617,381 |

See accompanying Notes to Consolidated Financial Statements.



**BED BATH & BEYOND INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements**
***(unaudited)***

***1) Basis of Presentation***

The accompanying consolidated financial statements, except for the February 28, 2004 consolidated balance sheet, have been prepared without audit. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of Bed Bath & Beyond Inc. and subsidiaries (the "Company") as of August 28, 2004 and February 28, 2004 and the results of their operations for the three months and six months ended August 28, 2004 and August 30, 2003, respectively, and their cash flows for the six months ended August 28, 2004 and August 30, 2003, respectively. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements are presented in accordance with the requirements for Form 10-Q and consequently do not include all the disclosures normally required by U.S. generally accepted accounting principles. Reference should be made to Bed Bath & Beyond Inc.'s Annual Report on Form 10-K for the fiscal year ended February 28, 2004 for additional disclosures, including a summary of the Company's significant accounting policies.

The Company exhibits less seasonality than many other retail businesses, although sales levels are generally higher in August, November and December and generally lower in February and March.

Operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

Certain reclassifications have been made to the fiscal 2003 consolidated financial statements to conform to the fiscal 2004 consolidated financial statement presentation.

***2) Recently Adopted Accounting Pronouncements***

In November 2003, the Financial Accounting Standards Board ("FASB") ratified the Emerging Issues Task Force's ("EITF") consensus on Issue 03-10, which amends EITF 02-16. This consensus requires that if certain criteria are met, consideration received by a reseller in the form of reimbursement from a vendor for honoring the vendor's sales incentives offered to consumers, such as manufacturer's coupons and rebates offered to consumers, should not be recorded as a reduction of the cost of the reseller's purchases from the vendor. The Company adopted EITF 03-10 at the beginning of fiscal 2004. The adoption of EITF 03-10 did not have a material impact on the Company's consolidated financial statements.

In December 2003, the FASB issued FASB Interpretation ("FIN") 46R, "Consolidation of Variable Interest Entities." FIN 46R replaces FIN 46 and addresses consolidation by business enterprises of variable interest entities. The provisions of FIN 46R are effective for the first reporting period that ends after December 15, 2003 for variable interests in those entities commonly referred to as special purpose entities. Application of the provisions of FIN 46R for all other entities is effective for the first reporting period ending after March 15, 2004. The adoption did not have a material impact on the Company's consolidated financial statements.



***3) Stock-Based Compensation***

As permitted under Statement of Financial Accounting Standard ("SFAS") No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," the Company elected not to adopt the fair value based method of accounting for its stock-based compensation plans, but continues to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has complied with the disclosure requirements of SFAS No. 148.

Accordingly, no compensation cost has been recognized in connection with the stock option plans. Set forth below are the Company's net earnings and net earnings per share "as reported," and as if compensation cost had been recognized ("pro forma") in accordance with the fair value provisions of SFAS No. 148:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in thousands, except per share data) | August 28, 2004 | August 30, 2003 | August 28, 2004 | August 30, 2003 |
| **Net earnings:** | | | | |
| As reported | $ 120,008 | $ 97,208 | $ 202,057 | $ 154,716 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects | (9,148) | (7,577) | (17,457) | (14,474) |
| Pro forma | $ 110,860 | $ 89,631 | $ 184,600 | $ 140,242 |

| | | | | |
|---|---|---|---|---|
| Basic: | | | | |
| As reported | $ 0.40 | $ 0.33 | $ 0.67 | $ 0.52 |
| Pro forma | $ 0.37 | $ 0.30 | $ 0.61 | $ 0.47 |
| Diluted: | | | | |
| As reported | $ 0.39 | $ 0.32 | $ 0.66 | $ 0.51 |
| Pro forma | $ 0.37 | $ 0.30 | $ 0.61 | $ 0.47 |

In March 2004, the FASB issued a Proposed SFAS, "Share-Based Payment: an amendment of FASB Statements No. 123 and 95." The proposed standard would require companies to expense share-based payments to employees, including stock options, based on the fair value of the award at the date of grant. The proposed statement would eliminate the intrinsic value method of accounting for stock options permitted by APB No. 25. As the Proposed SFAS has not yet been finalized, the Company cannot yet determine the impact of any requirement to recognize stock-based compensation as a cost in the consolidated financial statements.



***4) Investment Securities***

Investment securities at August 28, 2004 consist primarily of U.S. Government Agency debt securities and municipal debt securities. Because the Company has the ability and intent to hold the securities until maturity, it classifies its securities as held-to-maturity. These investment securities are recorded at amortized cost. Premiums are amortized and discounts are accreted over the life of the related held-to-maturity securities as adjustments to interest income using the effective interest method. Dividend and interest income are recognized when earned.

***5) Earnings Per Share***

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share has been computed by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share has been computed by dividing net earnings by the weighted average number of shares outstanding including the dilutive effect of stock options.

Options for which the exercise price was greater than the average market price of common shares for the three months and six months ended August 28, 2004 and August 30, 2003 were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. These consisted of options totaling 4,176,000 and 352,000 shares for the three months and 3,434,400 and 951,600 shares for the six months ended August 28, 2004 and August 30, 2003, respectively.

***6) Lines of Credit***

The Company maintains two uncommitted lines of credit of $75 million and $50 million, which expire in September 2004 and November 2004, respectively. The Company is currently in the process of renewing and increasing the $75 million line of credit to $100 million, which would expire in September 2005. These uncommitted lines of credit are currently, and are expected to be, used for letters of credit in the ordinary course of business. As of August 28, 2004, the Company did not have any direct borrowings under the uncommitted lines of credit.

***7) Supplemental Cash Flow Information***

The Company paid income taxes of $99.1 million and $98.3 million in the first six months of fiscal 2004 and 2003, respectively.

***8) Acquisition***

On June 19, 2003, the Company acquired Christmas Tree Shops, Inc. ("CTS"). The results of CTS' operations have been included in the consolidated financial statements since the date of acquisition. At the date of acquisition, CTS, headquartered in South Yarmouth, Massachusetts, operated 23 stores in 6 states. CTS is a retailer of giftware and household items selling a broad assortment of domestics merchandise and home furnishings at low prices in many categories including home décor, giftware, housewares, food, paper goods, and seasonal products.

The aggregate all cash purchase price, including the costs of the acquisition, was $194.4 million, net of cash acquired, which included $175.5 million of cash and $18.9 million in deferred payments payable in cash over three years. In June 2004, the Company paid the first of these deferred payments of $6.7 million.



The acquisition has been accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations." Accordingly, the total purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at June 19, 2003, including a debt prepayment penalty, with the excess of the purchase price over the net assets acquired of approximately $132.0 million being allocated to goodwill.

The pro forma financial information presented below for 2003 is unaudited and is based on the Company's historical results, adjusted for the impact of certain acquisition related items, such as: the reduction of net interest income due to the purchase price paid and the prepayment of CTS' debt, the net reduction of certain selling, general and administrative expenses directly attributable to the transaction, and the related pro forma income tax effects, as if they occurred as of the beginning of the respective period.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (in thousands, except per share data) | August 28, 2004 (unaudited) | August 30, 2003 (pro forma) | August 28, 2004 (unaudited) | August 30, 2003 (pro forma) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net sales | $ | [illegible] | $ | [illegible] | $ | [illegible] | $ | [illegible] |
| Net earnings | | 120,008 | | 97,197 | | 202,057 | | 157,725 |
| Earnings per share: | | | | | | | | |
| Basic | $ | 0.40 | $ | 0.33 | $ | 0.67 | $ | 0.53 |
| Diluted | $ | 0.39 | $ | 0.32 | $ | 0.66 | $ | 0.52 |

The unaudited pro forma results of the Company have been prepared for comparative purposes only and in management's opinion do not purport to be indicative of the Company's results of operations that would have occurred had the CTS acquisition been consummated at the beginning of the period. Pro forma results are not intended to be a projection of future results.



***ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

***Overview***

Bed Bath & Beyond Inc. and subsidiaries (the "Company") operates specialty retail stores nationwide. The Company's objective is to be a customer's first choice for products and services in the categories offered, in the markets in which the Company operates.

The Company's strategy is to achieve this objective through excellent customer service, an extensive breadth and depth of assortment, everyday low prices, introduction of new merchandising offerings and development of our infrastructure.

Operating in the highly competitive retail industry, the Company, along with other retail companies, is influenced by a number of factors including, but not limited to, general economic conditions, consumer preferences and spending habits, competition from existing and potential competitors, unusual weather patterns and the ability to find suitable locations at reasonable occupancy costs to support the Company's expansion program.

For the three and six months ended August 28, 2004, the Company's consolidated net sales increased by 14.6% and 18.4%, respectively, as compared to the corresponding periods last year. These increases were primarily attributable to the continuing Bed Bath & Beyond ("BBB") store expansion program, the inclusion of the results of Christmas Tree Shops, Inc. ("CTS") which was acquired in June 2003 and an increase in comparable store sales. CTS, whose comparable store sales were slightly negative for the three and six months ended August 28, 2004, will be included in the total Company's comparable store sales calculation starting in the third quarter of fiscal 2004.

Comparable store sales (which excluded CTS sales) for the fiscal three and six months of 2004 increased by approximately 4.8% and 4.9%, respectively. The increase in comparable store sales reflected a number of factors, including, but not limited to, the continued consumer acceptance of the Company's merchandise offerings and a strong focus on customer service with an emphasis on responding to customer feedback.

A store is considered a comparable store when it has been open for twelve full months following its grand opening period (typically four to six weeks). Stores relocated or expanded are excluded from comparable store sales if the change in square footage would cause meaningful disparity in sales over the prior period. In the case of a store to be closed, such store's sales are not considered comparable once the store closing process has commenced.

For the three and six months ended August 28, 2004, the Company's consolidated net earnings increased by 23.5% and 30.6%, respectively, as compared to the corresponding periods last year. These increases were primarily a result of relative increases in gross profit as a percentage of net sales and relative decreases in selling, general and administrative expenses ("SG&A") as a percentage of net sales.



***Results of Operations***

*Net Sales*

Net sales for the three months ended August 28, 2004 were approximately $1.3 billion, an increase of $162.5 million or approximately 14.6% over net sales of approximately $1.1 billion for the corresponding quarter last year. For the six months ended August 28, 2004, net sales were approximately $2.4 billion, an increase of $369.6 million or approximately 18.4% over net sales of approximately $2.0 billion for the corresponding six months of last year.

The increase in net sales for the three and six months ended August 28, 2004 was attributable to the Company's new store sales, approximately 59.9% and 46.7%, respectively, and CTS' sales (acquired on June 19, 2003), approximately 10.2% and 28.0%, respectively. The balance of the increase was primarily attributable to the increase in comparable store sales. The increase in comparable store sales for the fiscal three and six months of 2004 was 4.8% and 4.9%, respectively. The increases in comparable store sales are due to a number of factors, including but not limited to, the continued consumer acceptance of the Company's merchandise offerings and a strong focus on customer service with an emphasis on responding to customer feedback.

Sales of domestics merchandise and home furnishings for the Company accounted for approximately 52% and 48% of net sales, respectively, for both the three months ended August 28, 2004 and August 30, 2003.

*Gross Profit*

Gross profit for the three and six months ended August 28, 2004 was $530.8 million and $987.6 million, or 41.7% and 41.6% of net sales, respectively. Gross profit for the three and six months ended August 30, 2003 was $459.1 million and $826.3 million, or 41.3% and 41.2% of net sales, respectively. The increase in gross profit as a percentage of net sales for the three and six months ended August 28, 2004 was driven primarily by the reduction of inventory

acquisition costs which resulted in part from favorable shifts in the sales mix attributable to the Company's current merchandise offerings, as well as the Company's [illegible] to improve gross profit.

*Selling, General and Administrative Expenses*

SG&A for the three and six months ended August 28, 2004 was $341.7 million and $669.8 million, or 26.8% and 28.2% of net sales, respectively. SG&A for the three and six months ended August 30, 2003 was $303.3 million and $580.0 million, or 27.3% and 28.9% of net sales, respectively. The decrease in SG&A as a percentage of net sales for the quarter was primarily attributable to a decrease in payroll and payroll related items and occupancy costs, which primarily resulted from the comparable store sales increase. The decrease in SG&A as a percentage of net sales for the fiscal six months was primarily attributable to a decrease in payroll and payroll related items, occupancy costs and other expenses, which primarily resulted from the comparable store sales increase.



*Operating Profit*

Operating profit for the three months ended August 28, 2004 increased to $189.1 million compared to $155.9 million during the comparable period in 2003. For the six months ended August 28, 2004 operating profit increased to $317.8 million compared to $246.3 million during the comparable period of 2003. The improvements in operating profit were a result of the increases in total net sales and relative increases in gross profit as a percentage of net sales and relative decreases in SG&A as a percentage of net sales, as discussed above.

*Interest Income*

Interest income was $3.7 million and $6.8 million for the fiscal three and six month periods of 2004, respectively, compared to $2.2 million and $5.3 million for the fiscal three and six month periods of 2003, respectively. Interest income increased due to an increase in invested cash and an increase in the Company's average investment interest rate as a result of the recent upward trend in short term interest rates during the past three months.

*Income Taxes*

The effective tax rate was 37.75% for the fiscal three and six month periods of 2004 and 38.5% for the fiscal three and six month periods of 2003. The decrease is due to a reduction in the weighted average effective tax rate resulting from a change in the mix of the business within the taxable jurisdictions in which the Company operates.

*Net Earnings*

As a result of the factors described above, net earnings increased to $120.0 million for the fiscal three month period of 2004 and $202.1 million for the fiscal six month period of 2004, compared with $97.2 million for the fiscal three month period of 2003 and $154.7 million for the fiscal six month period of 2003.

***Expansion Program***

The Company is engaged in an ongoing expansion program involving the opening of new stores in both new and existing markets and the expansion or relocation of existing stores. As a result of this program, the Company operated 606 BBB stores, 24 CTS stores and 31 Harmon stores at the end of the fiscal second quarter of 2004, compared with 514 BBB stores, 23 CTS stores and 29 Harmon stores at the end of the corresponding quarter last year. At August 28, 2004, Company-wide total square footage was approximately 21.3 million square feet.

The Company opened 14 BBB stores during the second quarter of fiscal 2004 which brought the total BBB stores opened to 31 for the fiscal first half of 2004. The Company plans to open approximately 54 additional BBB stores, in both new and existing markets, two CTS stores and approximately four additional Harmon stores by the end of the fiscal year.



***Liquidity and Capital Resources***

Net cash provided by operating activities for the six months ended August 28, 2004 was $243.6 million as compared with $247.4 million in the corresponding period of fiscal 2003. The decrease in net cash provided by operating activities was primarily attributable to an increase in merchandise inventories (primarily a result of new store space) and a decrease in accrued expenses and other current liabilities, partially offset by increases in income taxes payable and accounts payable (primarily due to an increase in merchandise inventory) and an increase in net income.

Inventory per square foot, which was $49.42 as of August 28, 2004 and $50.72 as of August 30, 2003, was relatively flat year over year. The Company continues to focus on optimizing inventory productivity while maintaining appropriate in-store merchandise levels to support sales growth.

Net cash used in investing activities for the six months ended August 28, 2004 was $224.3 million as compared with $141.8 million used in the corresponding period of fiscal 2003. This change is primarily the result of a net increase in investment securities and the payment for the acquisition of CTS in the prior year. The increase in capital expenditures was primarily attributable to expenditures for furniture, fixtures and leasehold improvements for the 31 new BBB stores opened during the first six months of fiscal 2004 and information technology enhancements, compared to expenditures for furniture, fixtures and leasehold improvements and information technology enhancements for the 24 new BBB stores opened in the corresponding period last year.

Net cash provided by financing activities for the six months ended August 28, 2004 was $2.0 million as compared with $3.9 million used in the corresponding period of 2003. The change in the net cash position between fiscal years is primarily attributable to the prepayment of CTS' debt in the prior year in conjunction with the acquisition.

For fiscal 2004, the Company believes that its current operating cash flow, working capital, and cash and cash equivalents on hand will be sufficient to meet its obligations in the ordinary course of business, including capital expenditures and new store openings.

*Seasonality*

The Company exhibits less seasonality than many other retail businesses, although sales levels are generally higher in August, November and December and generally lower in February and March.

*Critical Accounting Policies*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Company to establish accounting policies and to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on other assumptions that it believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In particular, judgment is used in areas such as the provision for sales returns, inventory valuation, impairment of long-lived assets, goodwill and other indefinitely lived intangible assets, vendor allowances and accruals for self insurance, litigation and store opening, expansion, relocation and closing costs. Actual results could differ from these estimates.



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*Sales Returns*: Sales returns, which are reserved for based on historical experience, are provided for in the period that the related sales are recorded. Although these estimates have not varied materially from historical provisions, actual experience could vary from our historical experience in the future if the level of sales return activity changes materially. In the future, if the Company concludes an adjustment to the sales returns accrual is required, the reserve will be adjusted accordingly.

*Inventory Valuation*: Merchandise inventories are stated at the lower of cost or market. BBB's and Harmon's inventory cost is calculated using the retail inventory method and CTS' inventory cost is calculated using the first-in, first-out cost method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories.

At any one time, inventories include items that have been written down to the Company's best estimate of their realizable value. Factors considered in estimating realizable value include the age of merchandise and anticipated demand. Actual realizable value could differ materially from this estimate based upon future customer demand or economic conditions.

The Company estimates its reserve for shrinkage throughout the year, based on historical shrinkage. Actual shrinkage is recorded at year-end based upon the results of the Company's physical inventory count. Historically, the Company's shrinkage has not been volatile.

*Impairment of Long-Lived Assets*: The Company reviews long-lived assets for impairment by comparing the carrying value of these assets with their estimated future undiscounted cash flows when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. If it is determined that an impairment loss has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the present value of the estimated net cash flows. The Company has not historically had a material impairment of long-lived assets and the Company does not believe that a material impairment currently exists. In the future, if events or market conditions affect the estimated cash flows generated by the Company's long-lived assets to the extent that an asset is impaired, the Company will adjust the carrying value of these assets in the period in which the impairment occurs.

*Goodwill and Other Indefinitely Lived Intangible Assets*: The Company reviews goodwill and other intangibles that have indefinite lives for impairment annually and otherwise when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Impairment testing is based upon the best information available including estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. The Company has historically not recorded an impairment to its goodwill and other indefinitely lived intangible assets and does not believe that a material impairment currently exists. In the future, if events or market conditions affect the estimated fair value to the extent that an asset is impaired, the Company will adjust the carrying value of the asset in the period in which the impairment occurs.

*Vendor Allowances*: The Company receives allowances from vendors in the normal course of business for various reasons including direct cooperative advertising, purchase volume and reimbursement for other expenses. Annual terms for each allowance include the basis for earning the allowance and payment terms which vary by each agreement. Prior to the adoption of the FASB's Emerging Issues Task Force Issue ("EITF") No. 02-16, "Accounting by a Customer (including a



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Reseller) for certain Consideration Received from a Vendor," allowances were recorded as either a reduction of inventory cost, an advertising expense or a sales incentive. After adopting EITF 02-16, which was effective for all new vendor allowances, including modifications of existing allowances, entered into after December 31, 2002, all vendor allowances are recorded as a reduction of inventory cost, except for direct cooperative advertising allowances which are specific, incremental and identifiable. The Company recognizes purchase volume allowances as a reduction of the cost of inventory in the quarter in which milestones are achieved.

*Self Insurance*: The Company utilizes a combination of insurance and self insurance for a number of risks including workers compensation, general liability, automobile liability and employee related health care benefits (a portion of which is paid by our employees). Liabilities associated with the risks that we retain are estimated by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Although the Company's claims experience has not displayed substantial volatility in the past, actual experience could materially vary from our historical experience in the future. Factors that affect these estimates include but are not limited to: inflation, the number and severity of claims and regulatory changes. In the future, if the Company concludes an adjustment to self insurance accruals are required, the liability will be adjusted accordingly.

*Litigation*: The Company records an estimated liability related to various claims and legal actions arising in the ordinary course of business which is based on available information and advice from outside counsel, where appropriate. As additional information becomes available, the Company reassesses the potential liability related to its pending litigation and revises its estimates as appropriate. The Company can not predict the nature and validity of claims which could be asserted in the future, and future claims could have a material impact on its earnings.

*Store Opening, Expansion, Relocation and Closing Costs*: Store opening, expansion, relocation and closing costs, including estimates for markdowns, asset residual values and projected occupancy costs, are charged to earnings as incurred. Prior to the adoption of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which was effective for any exit or disposal activity initiated after December 31, 2002, costs related to store relocations and closings were provided for in the period in which management approved the relocation or closing of a store. Actual costs related to store relocations and closings could differ from these estimates.

***Acquisition***

On June 19, 2003, the Company acquired CTS. The results of CTS' operations have been included in the consolidated financial statements since the date of acquisition. At the date of acquisition, CTS, headquartered in South Yarmouth, Massachusetts, operated 23 stores in 6 states. CTS is a retailer of giftware and household items selling a broad assortment of domestics merchandise and home furnishings at low prices in many categories including home décor, giftware, housewares, food, paper goods, and seasonal products.

The aggregate all cash purchase price, including the costs of the acquisition, was $194.4 million, net of cash acquired, which included $175.5 million of cash and $18.9 million in deferred payments payable in cash over three years. In June 2004, the Company paid the first of these deferred payments of $6.7 million.



***Forward Looking Statements***

This Form 10-Q may contain forward looking statements. Many of these forward looking statements can be identified by use of words such as may, will, expect, anticipate, estimate, assume, continue, project, plan, and similar words and phrases. The Company's actual results and future financial condition may differ materially from those expressed in any such forward looking statements as a result of many factors that may be outside the Company's control. Such factors include, without limitation: general economic conditions, changes in the retailing environment and consumer preferences and spending habits; demographics and other macroeconomic factors that may impact the level of spending for the types of merchandise sold by the Company; unusual weather patterns; competition from existing and potential competitors; competition from other channels of distribution; pricing pressures; the ability to find suitable locations at reasonable occupancy costs to support the Company's expansion program; and the cost of labor, merchandise and other costs and expenses. The Company does not undertake any obligation to update its forward looking statements.

***Available Information***

The Company makes available as soon as reasonably practicable after filing with the SEC, free of charge, through the Investor Relations section of its website, www.bedbathandbeyond.com, the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, electronically filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

*Item 3. Quantitative and Qualitative Disclosures about Market Risk*

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment securities. The Company's market risks at August 28, 2004 are similar to those disclosed in Item 7a of the Company's Form 10-K for the year ended February 28, 2004. The Company continues to regularly evaluate these risks and continues to take measures to mitigate these risks.

*Item 4. Controls and Procedures*

(a) *Evaluation of disclosure controls and procedures.* The Company's Principal Executive Officer and Principal Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a- 15(e) and 15d-15(e)) as of August 28, 2004 (the end of the period covered by this quarterly report on Form 10-Q). Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that the Company's current disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) *Changes in internal controls.* There were no changes in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.



## PART II - OTHER INFORMATION

*Item 6. Exhibits and Reports on Form 8-K*

(a) The exhibits to this Report are listed in the Exhibit Index included elsewhere herein.

(b) Report on Form 8-K:

The Company furnished a report dated September 22, 2004, in reference to a press release dated September 22, 2004, in which the Company announced financial results for its fiscal second quarter ended August 28, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BED BATH & BEYOND INC.**
(Registrant)

Date: September 30, 2004

By: */s/ Eugene A. Castagna*
Eugene A. Castagna
Vice President – Finance and
Principal Accounting Officer



**EXHIBIT INDEX**

| Exhibit No. | Exhibit |
|---|---|
| 10.1 | Form of Stock Option Agreement under 2004 Incentive Compensation Plan. |
| 31.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002. |
| 32 | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002. |

STOCK OPTION AGREEMENT dated as of , 200 , between BED BATH & BEYOND INC. (the "Company") and ("you").

1. Option Grant. The Company grants you an option (the "Option") to purchase up to shares of the Company's Common Stock at a price of $ per share. The Option is not exercisable now but becomes exercisable in installments, which are cumulative, so that 20% of the number of shares originally subject to the Option will vest and become exercisable on each of the dates set forth on the Vesting Schedule below.

2. The Plan. The Option is entirely subject to the terms of the Company's 2004 Incentive Compensation Plan (the "Plan"). A description of key terms of the Plan is set forth in the Prospectus for the Plan.

3. Type of Option. The Option is a nonqualified option, not an "incentive stock option (ISO)" for U.S. tax purposes.

4. Termination. The Option terminates on the eighth (8th) anniversary of the date of this Agreement and as otherwise provided in the Plan. The Option will immediately terminate upon your termination of employment or other service with the Company and its Affiliates (as defined in the Plan), except that (i) if termination is because of your death, Disability or Retirement (as those terms are defined in the Plan), the portion of the Option that is vested and unexercised as of such termination date (the "Vested Portion") will remain exercisable for one year following termination, and (ii) if termination is for any other reason, excluding Cause (as defined in the Plan), the Vested Portion will remain exercisable for 90 days after termination, although in all cases the Option will never be exercisable after the eighth (8th) anniversary of this Agreement. Upon termination for Cause, the entire option (including any Vested Portion) terminates immediately. You will not be deemed to have experienced a termination of employment or other service until you no longer serve as either of (i) an employee of, or consultant to, the Company or its Affiliates, or (ii) a Director (as defined in the Plan).

5. Exercise. You may exercise the Option by delivering to the Company your signed, written notice of the number of shares to be purchased by your exercise, together with the full purchase price. Payment may be made by certified check, bank draft or money order payable to the order of the Company or, if permitted by the committee that administers the Plan (the "Committee"), through a broker-assisted cashless exercise or otherwise. The Committee may require you to pay any applicable withholding taxes.

6. Transfer Restriction. Unless otherwise permitted by the Committee, the Option is non-transferable, except that, in the event of your death, it may be transferred by will or the laws of descent and distribution. Only you (or your guardian or legal representative) may exercise the Option.



7. Notice. Any notice or communication to the Company concerning the Option must be in writing and delivered in person, or by United States mail, to the following address (or another address specified by the Company):

Bed Bath & Beyond Inc.
Finance Department – Stock Administration
650 Liberty Avenue
Union, New Jersey 07083

BED BATH & BEYOND INC.

By: ______________________________ ______________________________

Co-Chairman of the Board of Directors or Chief Executive Officer — Optionee

VESTING SCHEDULE

The date of grant of this Option is the date of this Agreement, as first written above.

Total Option Grant: shares

| Date on Which Installment First Vests and Becomes Exercisable | Number of Shares in Installment |
| --- | --- |

Exhibit 31.1

**CERTIFICATION**

I, Steven H. Temares, Principal Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bed Bath & Beyond Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and



5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 30, 2004

*/s/ Steven H. Temares*
Steven H. Temares
President and Chief Executive Officer

CERTIFICATION

I, Eugene A. Castagna, Principal Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bed Bath & Beyond Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and



5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 30, 2004

*/s/ Eugene A. Castagna*
Eugene A. Castagna
Vice President – Finance and
Assistant Treasurer

CERTIFICATION

The undersigned, the Principal Executive Officer and Principal Financial Officer of Bed Bath & Beyond Inc. (the "Company"), hereby certify, to the best of their knowledge and belief, that the Form 10-Q of the Company for the quarterly period ended August 28, 2004, (the "Periodic Report") accompanying this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The foregoing certification is provided solely for purposes of complying with the provisions of Section 906 of the Sarbanes – Oxley Act of 2002 and is not intended to be used for any other purposes.

Date: September 30, 2004

*/s/ Steven H. Temares*
Steven H. Temares
President and Chief Executive Officer

*/s/ Eugene A. Castagna*
Eugene A. Castagna
Vice President – Finance and Assistant Treasurer